

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other				Local Government Name		County	
Audit Date		Opinion Date		Date Accountant Report Submitted to State:			

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☐ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☐ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☐ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☐ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☐ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☐ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☐ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			
Reports on individual federal financial assistance programs (program audits).			
Single Audit Reports (ASLGU).			

Certified Public Accountant (Firm Name)				
Street Address		City	State	ZIP Code
Accountant Signature <i>Abraham & Gellray, P.C.</i> <i>Alan M. Stone</i>			Date	

**Marshall District Library
Marshall, Michigan**

FINANCIAL STATEMENTS

June 30, 2004

Marshall District Library

Marshall, Michigan

June 30, 2004

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Marshall District Library

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ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

Member:
American Institute of
Certified
Public Accountants
and
Michigan Association of
Certified Public
Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Marshall District Library
Marshall, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Marshall District Library as of and for the year ended June 30, 2004, which collectively comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Marshall District Library's management. Our responsibility is to express opinions on these financial statements based on our audit. The financial statements of Marshall District Library for the year ended June 30, 2003, were audited by other auditors whose report dated September 9, 2003, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Marshall District Library as of June 30, 2004, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note A, the Library has implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, as of July 1, 2003, along with all related statements and interpretations.

The management's discussion and analysis and budgetary comparison information, as identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

September 8, 2004

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Management's Discussion and Analysis Year Ended June 30, 2004

New Financial Reporting

Starting with fiscal year ended June 30, 2004, the Marshall District Library, (the "Library") has revised and improved its financial reporting document. These changes are a result of standards set by the Governmental Accounting Standards Board (GASB). The intent of these new standards is to provide citizens, taxpayers, and library users with a better understanding of how the Library's money and other assets are managed.

The new standards set by GASB are intended to give the reader of this annual financial report a better understanding of the financial status of the Library. The new standards introduce accounting rules and systems that are common in the private sector. This report presents a much broader picture of the Library's financial status. Through this comprehensive reporting of assets and liabilities, the reader should have a greater understanding of the Library's financial health.

The discussion and analysis of financial performance provides an overview of the Library's financial activities for the fiscal year ended June 30, 2004 from the point of view of the Library's administration. Please read it in conjunction with the Library's financial statements, which will immediately follow this section.

Comparative analysis will be provided in future years and it is not required in the first year of implementation of GASB Statement No. 34.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2004:

- The assets of the Library exceeded its liabilities at the end of the most recent fiscal year by \$710,309 (net assets) at the government-wide level.
- The Library's total net assets increased by \$28,146, as a result of current year activity at the government-wide level.
- Unrestricted fund balance decreased as result of expenditures exceeding revenues in the current year at the fund level.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the Marshall District Library as a whole and present a longer-term view of the Library's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the operations of the Marshall District Library in more detail than the government-wide financial statements by providing information about the Library's most significant funds.

Marshall District Library

Management's Discussion and Analysis Year Ended June 30, 2004

The Library as a Whole

The following table shows, in a condensed format, the net assets as of June 30, 2004. A comparative analysis of data will be presented in future years when the information is available.

Assets	
Current assets	\$ 237,050
Noncurrent assets	<u>2,337,345</u>
Total assets	2,614,395
Liabilities	
Current liabilities	166,637
Noncurrent liabilities	<u>1,737,449</u>
Total liabilities	<u>1,904,086</u>
Net Assets	
Invested in capital assets, net of related debt	537,345
Restricted	39,333
Unrestricted	<u>133,631</u>
Total net assets	<u>\$ 710,309</u>

The Library's total net assets were \$710,309 at June 30, 2004. Unrestricted net assets (the part of net assets that can be used to finance day-to-day operations) were \$133,631 at the end of the fiscal year. The net asset invested in capital assets were at 537,345. The management's discussion and analysis will present a condensed comparative statement of net assets next year when there are two years of statements in the GASB Statement No. 34 format.

The following table shows the changes in net assets during the current year. Future reports will provide comparative data for the statement of activities. Comparative data is not required during the first year of reporting under requirements of GASB Statement No. 34.

Revenues	
Program revenue:	
Charges for services	\$ 17,144
Operating grants and contributions	30,089
General revenue:	
Property taxes	632,326
State Aid – unrestricted	33,897
Penal Fines	69,824
Interest	2,304
Miscellaneous	<u>7,288</u>
Total revenues	792,872
Program Expenses	
Library services/operation	663,303
Interest on long-term debt	<u>101,423</u>
Total expenses	<u>764,726</u>
Change in Net Assets	<u><u>\$ 28,146</u></u>

Marshall District Library

Management's Discussion and Analysis Year Ended June 30, 2004

Governmental Activities

The Library's governmental revenues totaled \$792,872 with the greatest revenue source being property taxes levied by the district. Property taxes make up approximately 79.8 percent of total governmental revenue.

The Library incurred expenses of \$764,726 during the year. As a special purpose government, all of the governmental expenses incurred, other than expenses related to the repayment of debt, are associated with the library service function.

The Library's Funds

The analysis of the Library's major funds begins on page 3, following the government-wide financial statements. The fund financial statements provide detailed information about specific funds, not the Marshall District Library as a whole. The Marshall District Library's Board of Trustees may create funds to help manage money for specific purposes as well as to show accountability for certain activities. The Library's major funds for the fiscal year ended June 30, 2004 were the General Fund, the Hughes Trust Fund, and the Debt Service Fund.

The General Fund pays for the Library's governmental services. The sole service provided during the fiscal year was library services, which incurred expenditures of \$594,939 for the fiscal year. The Hughes Trust Fund is used to supplement the General Fund operations, and the revenues may only be expended on goods or services allowed by the trust. The Hughes Trust Fund incurred expenditures of \$196 and transferred \$15,129 to the General Fund during the fiscal year. The Debt Service Fund pays the principal and interest as it becomes due for the Library's General Obligation Bonds payable.

Budgetary Highlights

Over the course of the fiscal year, the Library Board made necessary budget adjustments to fund unanticipated General Fund expenditures. By the end of the year less than 1 percent of the amended budget remained unexpended, which was really too close for comfort. Looked at another, way, we spent more than we took in, in spite of having made significant service reductions and personnel reductions. The fiscal year closed on negative numbers and the following year looks bleak.

Capital Assets and Debt Administration

At the end of the fiscal year, the Library had \$2,377,345 invested in land, building and improvements, equipment, furniture, and books (net of accumulated depreciation). The main capital assets added were \$10,727 in equipment and furniture and \$71,478 in collections (i.e., books, periodicals, etc.).

No debt was issued during the fiscal year. The Library made principal payments on the General Obligation Bonds outstanding of \$110,000. The twenty year General Obligation Bonds for the Library's \$2,535,000 building project in 1996 are approaching the midpoint in their life; the bond issue is scheduled to be totally repaid in the year 2016.

The only other long-term liability the Library had at June 30, 2004 was for compensated absences (as detailed in Note D) in the amount of \$28,462. This amount increased \$4,887 in the current year.

Marshall District Library

Management's Discussion and Analysis Year Ended June 30, 2004

Next Year's Millage Rate

At its regular meeting on June 29, 2004, the Library Board approved certifying a tax levy of 0.9781 mills for the fiscal year 2004-2005. Based on the current taxable value in the Library District, this will generate approximately \$440,129, less an estimated tax capture of \$8,706 by the City or Marshall's DDA and LDFA. The Library Board adopted an operating budget for the 2004-2005 fiscal year anticipating total revenues of \$591,698 and expenditures in that same amount.

On November 2, 2004, the voters in the Library District approved an additional operating millage in the amount of 0.693 mills, to run for eight years. The Library Board immediately certified an additional tax levy in that amount to be spread with the winter tax bills on December 1, 2004. The new millage is expected to raise an additional \$311,838 in the fiscal year 2004-2005. The Library Board is amending the current year's operating budget to enable rebuilding the Library's staffing levels, hours open, and programs.

Contacting the Library's Management

This financial report is intended to provide our citizens, taxpayers, and library users with a general overview of the Library's finances and demonstrate the Library's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Library Director's office at 124 West Green Street, Marshall, Michigan 49068.

BASIC FINANCIAL STATEMENTS

Marshall District Library

STATEMENT OF NET ASSETS

June 30, 2004

	<u>Governmental Activities</u>
ASSETS	
Current assets	
Cash and cash equivalents	\$ 128,807
Investments	85,200
Accrued interest receivable	212
Due from other governmental units	18,856
Prepaid expenses	<u>3,975</u>
Total current assets	237,050
Noncurrent assets	
Capital assets, net	<u>2,377,345</u>
TOTAL ASSETS	2,614,395
LIABILITIES	
Current liabilities	
Accounts payable	9,094
Other accrued liabilities	10,837
Accrued interest payable	15,693
Current portion of compensated absences	16,013
Current portion of long-term debt	<u>115,000</u>
Total current liabilities	166,637
Noncurrent liabilities	
Noncurrent portion of compensated absences	12,449
Noncurrent portion of long-term debt	<u>1,725,000</u>
Total noncurrent liabilities	<u>1,737,449</u>
TOTAL LIABILITIES	<u>1,904,086</u>
NET ASSETS	
Invested in capital assets, net of related debt	537,345
Restricted for:	
Trust activities	5,750
Debt service	33,583
Unrestricted	<u>133,631</u>
TOTAL NET ASSETS	<u><u>\$ 710,309</u></u>

See accompanying notes to financial statements.

Marshall District Library

STATEMENT OF ACTIVITIES

Year Ended June 30, 2004

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Change in Net Assets
		Charges for Services	Operating Grants and Contributions	Governmental Activities
Governmental activities:				
Recreation and cultural	\$ 663,303	\$ 17,144	\$ 30,089	\$ (616,070)
Interest on long-term debt	101,423	-	-	(101,423)
Total governmental activities	<u>\$ 764,726</u>	<u>\$ 17,144</u>	<u>\$ 30,089</u>	(717,493)
General revenues:				
				632,326
				33,897
				69,824
				2,304
				<u>7,288</u>
		Total general revenues		<u>745,639</u>
		Change in net assets		28,146
		Net assets, beginning of the year		<u>682,163</u>
		Net assets, end of the year		<u>\$ 710,309</u>

See accompanying notes to financial statements.

Marshall District Library

GOVERNMENTAL FUNDS BALANCE SHEET

June 30, 2004

	General	Special Revenue Hughes Trust	Debt Service 1996 Building and Site Bonds
ASSETS			
Cash and cash equivalents	\$ 118,183	\$ 4,785	\$ 89
Investments	30,000	55,200	-
Accrued interest receivable	-	212	-
Due from other funds	-	-	49,187
Due from other governmental units	18,856	-	-
Prepaid expenditures	3,975	-	-
TOTAL ASSETS	\$ 171,014	\$ 60,197	\$ 49,276
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 9,094	\$ -	\$ -
Accrued liabilities	10,837	-	-
Due to other funds	49,187	-	-
TOTAL LIABILITIES	69,118	-0-	-0-
FUND BALANCES			
Reserved for:			
Hughes nonexpendable trust	-	-	-
Unreserved			
Designated for debt service	-	-	49,276
Undesignated, reported in:			
General fund	101,896	-	-
Special revenue funds	-	60,197	-
TOTAL FUND BALANCES	101,896	60,197	49,276
TOTAL LIABILITIES AND FUND BALANCES	\$ 171,014	\$ 60,197	\$ 49,276

See accompanying notes to financial statements.

Nonmajor Governmental Fund (Hughes Permanent Fund)	Total Governmental Funds
\$ 5,750	\$ 128,807
-	85,200
-	212
-	49,187
-	18,856
-	3,975
<u>\$ 5,750</u>	<u>\$ 286,237</u>
\$ -	\$ 9,094
-	10,837
-	49,187
-0-	69,118
5,750	5,750
-	49,276
-	101,896
-	60,197
<u>5,750</u>	<u>217,119</u>
<u>\$ 5,750</u>	<u>\$ 286,237</u>

Marshall District Library

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

June 30, 2004

Total fund balance - governmental funds **\$ 217,119**

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 3,790,025	
Accumulated depreciation is	<u>(1,412,680)</u>	
Capital assets, net		2,377,345

Long-term liabilities are not due and payable in the current period and
therefore are not reported in the Governmental Funds Balance Sheet.
Long-term liabilities at year-end consist of:

General obligation bonds	1,840,000	
Accrued interest payable	15,693	
Compensated absences	<u>28,462</u>	
		<u>(1,884,155)</u>

Net assets of governmental activities **\$ 710,309**

See accompanying notes to financial statements.

Marshall District Library

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS

Year Ended June 30, 2004

	General	Speical Revenue Hughes Trust	Debt Service 1996 Building and Site Bonds
REVENUES			
Taxes	\$ 421,640	\$ -	\$ 210,686
Intergovernmental	44,814	-	-
Fines and forfeits	69,824	-	-
Charges for services	17,144	-	-
Interest and rents	1,220	985	25
Other	7,288	19,172	-
TOTAL REVENUES	561,930	20,157	210,711
EXPENDITURES			
Current			
Recreation and cultural	510,796	196	-
Debt service	-	-	212,706
Capital outlay	84,143	-	-
TOTAL EXPENDITURES	594,939	196	212,706
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(33,009)	19,961	(1,995)
OTHER FINANCING SOURCES (USES)			
Operating transfers in	15,129	74	-
Operating transfers out	-	(15,129)	-
TOTAL OTHER FINANCING SOURCES (USES)	15,129	(15,055)	-0-
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(17,880)	4,906	(1,995)
Fund balances, beginning of year	108,450	55,291	34,295
Prior period adjustments	11,326	-	16,976
Fund balances, end of year	\$ 101,896	\$ 60,197	\$ 49,276

See accompanying notes to financial statements.

Nonmajor Governmental Fund (Hughes Permanent Fund)	Total Governmental Funds
\$ -	\$ 632,326
-	44,814
-	69,824
-	17,144
74	2,304
-	26,460
74	792,872
-	510,992
-	212,706
-	84,143
-0-	807,841
74	(14,969)
-	15,203
(74)	(15,203)
(74)	-0-
-0-	(14,969)
5,750	203,786
-	28,302
\$ 5,750	\$ 217,119

Marshall District Library

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2004

Net change in fund balances - total governmental funds \$ (14,969)

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 82,205	
Depreciation expense	<u>(145,486)</u>	
Excess of depreciation expense over capital outlay		(63,281)

Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets. In the current year, these amounts consist of:

Bond principal retirement	110,000
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Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Decrease in accrued interest payable	1,283	
(Increase) in accrued compensated absences	<u>(4,887)</u>	
		<u>(3,604)</u>

Change in net assets of governmental activities \$ 28,146

See accompanying notes to financial statements.

Marshall District Library

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE A: DESCRIPTION OF LIBRARY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying basic financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include oversight responsibility, scope of public service and special financing relationships. The library is a District library formed pursuant to the District Library Establishment Act (1989 Public Act 24) by an agreement between the City of Marshall and the townships of Eckford, Fredonia, Marengo and Marshall. The Library has a separate tax millage and governing board.

The Marshall District Library's goal is to provide materials and services, which will furnish opportunities for educational, informational, recreational, and cultural needs of the community. The Library's more significant accounting policies are described below.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement 14, The Financial Reporting Entity; and Statement on Michigan Governmental Accounting and Auditing No. 5, these financial statements present all financial activities of the Marshall District Library. The Marshall District Library has no activities that would be classified as component units.

2. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the government-wide statements) present information for the Library as a whole.

The government-wide financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations are provided that explain the differences in detail.

The statement of activities presents the direct functional expenses of the Library and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients for goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State aid payments and other general revenues and shows how governmental functions are either self-financing or supported by the general revenues of the Library.

FUND FINANCIAL STATEMENTS

The fund financial statements present the Library's individual major funds and aggregated nonmajor funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

The major funds of the Library are:

- a. General Fund - The General Fund is the general operating fund of the Library. It is used to account for all financial resources not accounted for in other funds. General fund activities are financed by revenue from general property taxes, penal fines, and other sources.
- b. 1996 Building and Site Bonds - The 1996 Building and Site Bonds fund is a debt service fund used to account for the annual payment of principal, interest and expenses in connection with long-term debt for the Library.
- c. Hughes Trust - The Hughes Trust Fund is a special revenue fund used to account for earmarked donations to the Library and the proper expense of these donations.

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE A: DESCRIPTION OF LIBRARY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

3. Measurement Focus

The government-wide financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

4. Basis of Accounting

Basis of accounting refers to the timing under which transactions are recognized for financial reporting purposes. Governmental fund financial statements used the modified accrual basis of accounting. The government-wide financial statements are prepared using the accrual basis of accounting.

Under the accrual basis of accounting, revenue is recorded in the period in which it is earned and expenses are recorded when incurred, regardless of the timing of related cash flows. Property tax revenue is recognized in the fiscal year for which it is levied. Revenues for grants, entitlements, and donations are recognized when all eligibility requirements imposed by the provider have been met. Deferred revenue is recorded when resources are received by the Library before it has legal claim to them, such as when grant monies are received prior to the incurrence of qualified expenditures.

Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). The length of time used for "available" for purposes of revenue recognition in the governmental fund financial statements is 60 days. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities in the current period. Revenues susceptible to accrual include property taxes, and state aid, and interest revenue. Other revenues are not susceptible to accrual because generally they are not measurable until received in cash. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt which are recorded when due.

5. Budgets and Budgetary Accounting

Budgets shown as required supplementary information were prepared on a basis consistent with the basis used to reflect actual results. The Library employs the following procedures in establishing the budgetary data reflected in the financial statements.

The Library does not maintain a formalized encumbrance accounting system. All annual appropriations lapse at fiscal year end.

- a. The Library prepares the proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and resources to finance them.
- b. Prior to incurring significant expenditures, the budget is legally enacted through Library Board action.
- c. The budget is legally adopted at the activity level and maintained at the account level.
- d. Budgeted amounts are reported as originally adopted and as amended by the Library Board during the year.

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE A: DESCRIPTION OF LIBRARY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

6. Cash, Cash Equivalents, and Investments

Cash and cash equivalents consist of money market checking, savings accounts, and pooled investment trust.

Investments include certificates of deposit with an original maturity of greater than 90 days from the date of purchase.

7. Receivables

Receivables consist of penal fines, interest, and other amounts due from organizations or other governments.

8. Property Taxes

The participating City and Townships levy and collect property taxes for the Library. As the Library tax is collected it is remitted by the City and Township Treasurers. At March 1 each year, the City and Townships settle their delinquent taxes with the County Treasurer and the unpaid real property tax is remitted to the Library by the County Treasurer in Calhoun County. Delinquent personal property taxes are retained by the Treasurers for subsequent collection. The Library is permitted to levy up to \$2 per \$1,000 of assessed valuation on property within the District. The voters approved a levy of 1.000 mills for general operating and 1.000 mills for building debt. The building debt is authorized for twenty (20) years commencing February 13, 1997. For the year ended June 30, 2004, the Library levied .9797 mills for operations and .4800 mills for building debt, respectively.

9. Capital Assets

Capital assets include land, buildings, equipment, and collections and are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements under the governmental activities column. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in the governmental funds and the related assets are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Buildings and improvements	10 - 40 years
Equipment and furniture	3 - 20 years

10. Compensated Absences

In accordance with the Library personnel policies, individual employees have vested rights upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in the respective personnel policies and/or contracts.

Vested vacation and sick leave earned as of June 30, 2004, including related payroll taxes, is recorded in the government-wide financial statements.

11. Long-Term Obligations

Long-term debt and other long-term obligations are recognized as a liability in the government-wide financial statements when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term.

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE A: DESCRIPTION OF LIBRARY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

11. Long-Term Obligations - continued

Long-term debt is recognized as a liability of a governmental fund when due or when resources have been accumulated in the General Fund for a payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

12. Interfund Transactions

During the course of normal operations, the Library has numerous transactions between funds, including expenditures and transfers of resources to provide services and service debt. The accompanying financial statements generally reflect such transactions as operating transfers. Transfers between governmental funds are netted as part of the reconciliation to the government-wide financial statements.

13. Comparative Data

Comparative data for the prior year has not been presented in the accompanying financial statements since the inclusion of comparative data would make the statements unduly complex and difficult to read.

14. Accounting Change

As of July 1, 2003, the Library implemented the provisions of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments (Statement) along with all related statements and interpretations. Some of the significant changes in the Statement include the following:

- A Management Discussion and Analysis (MD&A) section providing an analysis of the Library's overall financial position and results of operations has been included.
- Government-wide financial statements (statement of net assets and statement of activities) prepared using full accrual accounting for all of the Library's activities have been provided. Reconciliations are presented between the governmental fund level (modified accrual) and government-wide (full accrual) statements since their measurement focus is not the same.
- Capital assets reported on the statement of net assets include assets in the amount of \$2,711,362, which was previously reported in the General Fixed Assets Account Group. The government-wide statement of activities reflects depreciation expenses on the Library's applicable capital assets.
- Long-term obligations reported on the statement of net assets include \$1,973,575, which was previously reported in the General Long-term Debt Account Group.
- The fund financial statements focus on major funds rather than fund types.

This implementation has also required certain disclosures to be made in the notes to the financial statements concurrent with the implementation of Statement No. 34 based on GASB Statement No. 38. Certain note disclosures have been added and/or amended, including descriptions of activities of the major fund and various other disclosures.

Marshall District Library

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS

In accordance with Michigan Compiled Laws, the Marshall District Library is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office located in this State under the laws of the State or the United States, but only if the bank, savings and loan association, or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of the Michigan Compiled Laws.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or federal agency obligations repurchase agreements.
5. Bankers acceptances of United States banks.
6. Mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

Deposits of the Library are at federally insured banks located in the State of Michigan with all accounts maintained in the name of Marshall District Library.

As of June 30, 2004, the carrying amount and bank balances for each type of bank account are as follows:

<u>Account Type</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
Checking	\$ 116,593	\$ 127,648
Savings	10,535	10,535
Certificates of deposit	<u>85,200</u>	<u>85,200</u>
TOTAL	<u>\$ 212,328</u>	<u>\$ 223,383</u>

As of June 30, 2004, the Library's deposits were insured by the FDIC in the amount of \$195,735 and the amount of \$27,648 was uninsured.

Marshall District Library

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

Investments

As of June 30, 2004, the carrying and market value for the investment is as follows:

<u>Investment Type</u>	<u>Carrying Amount</u>	<u>Market Value</u>
Uncategorized pooled investment funds	\$ <u>1,579</u>	\$ <u>1,579</u>

The cash and cash equivalents captions in the basic financial statements includes \$100 in imprest cash.

NOTE C: INTERFUND RECEIVABLES AND PAYABLES

The amount of interfund receivables and payables at June 30, 2004, are as follows:

Due from General Fund to:	
1996 Building and Site Bonds Fund	\$ <u>49,187</u>

Amounts appearing as interfund payables and receivables arise from two types of transactions. One type of transaction is where a fund will pay for a good or service that at least a portion of the benefit belongs to another fund. The second type of transaction is where one fund provides a good or service to another fund. Balances at the end of the year are for transfers that have not cleared as of the balance sheet date.

NOTE D: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2004, was as follows:

	<u>Restated Balance July 1, 2003</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance June 30, 2004</u>
Governmental Activities				
Land	\$ 11,000	\$ -	\$ -	\$ 11,000
Buildings and additions	2,580,706	-	-	2,580,706
Equipment and furniture	119,656	10,727	-	130,383
Collections	<u>99,458</u>	<u>71,478</u>	-	<u>1,067,936</u>
Totals at historical cost	3,707,820	82,205	-0-	3,790,025
Less accumulated depreciation for:				
Buildings and additions	(371,481)	(65,760)	-	(437,241)
Equipment and furniture	(74,942)	(15,129)	-	(90,071)
Collections	<u>(820,771)</u>	<u>(64,597)</u>	-	<u>(885,368)</u>
Total accumulated depreciation	<u>(1,267,194)</u>	<u>(145,486)</u>	-0-	<u>(1,412,680)</u>
Capital assets, net	<u>\$ 2,440,626</u>	<u>\$ (63,281)</u>	<u>\$ -0-</u>	<u>\$ 2,377,345</u>

Marshall District Library

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE E: LONG-TERM DEBT

The following is a summary of changes in long-term debt (including current portions) of the Library for the year ended June 30, 2004.

	Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004	Amounts Due Within One Year
1996 Building and Site Bonds	\$ 1,950,000	\$ -	\$ 110,000	\$ 1,840,000	\$ 115,000
Compensated absences	23,575	4,887	-	28,462	16,013
	<u>\$ 1,973,575</u>	<u>\$ 4,887</u>	<u>\$ 110,000</u>	<u>\$ 1,868,462</u>	<u>\$ 131,013</u>

Significant details regarding outstanding long-term debt (including current portions) are presented below.

General Obligation Bonds

\$2,535,000 Library Building and Site Bonds dated May 1, 1996, due in annual installments ranging from \$115,000 to \$180,000 through May 1, 2016, with interest ranging from 5.00 to 6.875 percent, payable semi annually.

\$ 1,840,000

The annual requirements to pay the debt principal and interest outstanding are presented below.

<u>Year Ending June 30, _</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 115,000	\$ 94,156
2006	125,000	86,250
2007	130,000	80,000
2008	135,000	73,500
2009	145,000	66,750
2010-2014	830,000	218,250
2015-2016	<u>360,000</u>	<u>27,000</u>
	<u>\$ 1,840,000</u>	<u>\$ 645,906</u>

Compensated Absences - In accordance with Library personnel policies, individual employees have rights upon termination of employment to receive payment for unused vacation and sick leave under the formulas and conditions specified in the personnel policies. The dollar amount of these rights including related payroll taxes amounted to \$28,462 for compensated absences at June 30, 2004. This amount has been recorded in the government-wide financial statements.

NOTE F: RISK MANAGEMENT

The Library participates in a State pool, the Michigan Municipal Liability and Property Pool, with other municipalities for property, liability, bonding, and casualty losses. The pool is organized under Public Act 138 of 1982, as amended. The Department also participates in a State Pool, the Michigan Municipal Workers Compensation Fund, with other municipalities for worker's compensation losses. The pool is organized under Public Act 317 of 1969, as amended. The Library has no liability for additional assessments based on the claims filed against the pools nor do they have any right to dividends.

Marshall District Library

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE G: DEFINED BENEFIT PENSION PLAN

Plan Description

The Library participates in the Michigan Municipal Employees Retirement System, an agent multiple-employer defined benefit pension plan that covers all eligible (i.e., full-time) employees of the Library. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by the Library Board. The plan requires a contribution from the Director at 3.00 percent (under the B-4 benefit program) and the Library contributes the remaining amounts necessary to fund the system.

Annual Pension Cost

For the year ended June 30, 2004, the Library's annual pension cost of \$7,981 for the plan was equal to the Library's required and actual contribution. The estimated annual required contribution was determined as part of an actuarial valuation at December 31, 2001, using the entry actual age cost method. Actual required contributions are based on current monthly payroll times an actuarially computed employer contribution rate. Significant actuarial assumptions used include (a) a 8.00 percent investment rate of return (b) projected salary increases of 4.5 percent per year compounded annually, attributable to inflation (c) additional salary increases ranging from 0% to 4.2% per year depending on age, seniority and merit, and (d) assumption benefits will increase 2.5% each year after retirement. The actuarial value of assets was determined using techniques that smooth the effects of short term volatility over a four (4) year period. The unfunded actuarial liability is being amortized as a level percentage of payroll over a period of thirty-two (32) years.

Three (3) year trend information

	Year Ended December 31,		
	<u>2001</u>	<u>2002</u>	<u>2003</u>
Actuarial value of assets	\$ 172,221	\$ 189,625	\$ 217,126
Actuarial accrued liability (AAL)	192,955	206,111	218,938
Unfunded AAL	20,734	16,486	1,812
Funded ratio	89%	92%	99%
Covered payroll	62,231	64,225	66,282
UAAL as a percentage of covered payroll	33%	26%	3%

	Year Ended June 30,		
	<u>2002</u>	<u>2003</u>	<u>2004</u>
Annual pension cost	\$ 6,932	\$ 7,245	\$ 7,981
Percentage of APC contributed	100%	100%	100%
Net pension obligation	-	-	-

NOTE H: DEFINED CONTRIBUTION PLAN

The Library provides a defined contribution plan created in accordance with Internal Revenue Code Section 457, to its employees. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The Library contributes \$500 annually for all employees meeting requirements established through the personnel policies adopted by the Library Board. In accordance with these requirements, the Library contributed \$3,500 for the year ended June 30, 2004.

Marshall District Library

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE I: INTERFUND TRANSFERS

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. For the purpose of the statement of activities, all interfund transfers between individual governmental funds have been eliminated.

Transfers to general fund from:	
Hughes trust fund	\$ 15,129
Transfer to Hughes trust fund from:	
Nonmajor governmental fund	<u>74</u>
	<u>\$ 15,203</u>

NOTE J: PRIOR PERIOD ADJUSTMENTS

The following prior period adjustments were made during the current period, which were the result of a change in accounting principle and the correction of an accounting error. These adjustments were reported as changes to beginning fund equity. The effect on operations and other affected balances for the current year and prior period are as follows:

	<u>2004</u>	<u>2003</u>	<u>Description</u>
General Fund			
Accrued liabilities	\$ -	\$(11,326)	Correct overstated
Fund balance - beginning	11,326	-	compensated absences
1996 Building and Site Fund			
Accrued interest payable	-	(16,976)	Correct overstated
Fund balance - beginning	16,976	-	accrued interest payable

NOTE K: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Michigan Public Act 621 of 1978, Sections 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amounts appropriated.

In the budgetary comparison schedules presented as required supplementary information, the Library's budgeted expenditures in the General and major Special Revenue Funds have been shown at the activity level. The approved budgets of the Library have been adopted at the activity level.

During the year ended June 30, 2004, the Library incurred expenditures in the General and Special Revenue Funds in excess of the amounts appropriated as follows:

	<u>Amounts</u> <u>Appropriated</u>	<u>Amounts</u> <u>Expended</u>	<u>Variance</u>
General Fund			
Recreation and cultural			
Salaries and wages	\$ 316,760	\$ 319,329	\$ 2,569
Contracted services	31,450	32,975	1,525
Utilities	28,200	29,865	1,665
Special Revenue Fund			
Hughes Trust			
Other	-	196	196
Operating transfers out	-	15,129	15,129

Marshall District Library

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE L: FUND BALANCE RESERVES AND DESIGNATIONS

Reserved fund balances are used to earmark a portion of fund balance to indicate that it is not appropriate for expenditure or has been legally segregated for a specific future use.

The following are the various fund balance reserves as of June 30, 2004:

Hughes Permanent Fund	
Reserved for trust activities	\$ <u>5,750</u>

The following are the various fund balance designations as of June 30, 2004:

1996 Building and Site Fund	
Designated for debt service	\$ <u>49,276</u>

NOTE M: POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

The Library provides medical coverage in accordance with current policies to eligible retirees and dependents at no cost to the participants. To qualify, retirees must be receiving pension payments from a retirement system maintained by the Library or another system approved by the Library. The expense is recorded as incurred. Currently, the Library has no retirees participating in the benefits.

REQUIRED SUPPLEMENTARY INFORMATION

Marshall District Library

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2004

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Taxes	\$ 428,407	\$ 428,407	\$ 421,640	\$ (6,767)
Intergovernmental				
State	27,987	27,987	33,897	5,910
Local	9,579	9,579	10,917	1,338
Library fees and fines	19,000	19,000	17,144	(1,856)
Interest	2,500	2,500	1,220	(1,280)
Penal fines	77,500	77,500	69,824	(7,676)
Other	22,000	22,000	7,288	(14,712)
TOTAL REVENUES	586,973	586,973	561,930	(25,043)
EXPENDITURES				
Recreation and cultural				
Salaries and wages	322,710	316,760	319,329	(2,569)
Fringe benefits	100,124	88,719	87,055	1,664
Supplies	17,000	16,000	15,368	632
Contracted services	26,750	31,450	32,975	(1,525)
Insurance	5,778	5,778	5,732	46
Communications	4,225	4,725	3,579	1,146
Utilities	29,200	28,200	29,865	(1,665)
Transportation and training	2,000	2,000	1,975	25
Repairs and maintenance	13,000	15,700	14,918	782
Total recreation and cultural	520,787	509,332	510,796	(1,464)
Capital outlay				
Books, other collections, and memberships	78,000	74,000	71,478	2,522
Equipment	8,500	13,000	12,665	335
Total capital outlay	86,500	87,000	84,143	2,857
TOTAL EXPENDITURES	607,287	596,332	594,939	1,393
EXCESS OF REVENUES (UNDER) EXPENDITURES	(20,314)	(9,359)	(33,009)	(23,650)

Marshall District Library

General Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended June 30, 2004

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
OTHER FINANCING SOURCES				
Operating transfers from other funds				
Hughes expendable trust	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 15,129</u>	<u>\$ 15,129</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES (UNDER) EXPENDITURES	(20,314)	(9,359)	(17,880)	(8,521)
Fund balance, beginning of year	108,450	108,450	108,450	-0-
Prior period adjustments	<u>-</u>	<u>-</u>	<u>11,326</u>	<u>11,326</u>
Fund balance, end of year	<u><u>\$ 88,136</u></u>	<u><u>\$ 99,091</u></u>	<u><u>\$ 101,896</u></u>	<u><u>\$ 2,805</u></u>

Marshall District Library

Hughes Trust Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2004

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Interest and rents	\$ -	\$ -	\$ 985	\$ 985
Other				
Contributions	-	-	19,172	19,172
TOTAL REVENUES	-0-	-0-	20,157	20,157
EXPENDITURES				
Current				
Recreation and cultural	-	-	196	(196)
EXCESS OF REVENUES OVER EXPENDITURES	-0-	-0-	19,961	19,961
OTHER FINANCING SOURCES (USES)				
Operating transfers in	-	-	74	74
Operating transfers out	-	-	(15,129)	(15,129)
TOTAL OTHER FINANCING SOURCES (USES)	-0-	-0-	(15,055)	(15,055)
EXCESS OF REVENUES OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	-0-	-0-	4,906	4,906
Fund balance, beginning of year	55,291	55,291	55,291	-0-
Fund balance, end of year	<u>\$ 55,291</u>	<u>\$ 55,291</u>	<u>\$ 60,197</u>	<u>\$ 4,906</u>

Principals

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Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA

Karen A. Roka, CPA
James A. Huguelet, CPA
Alan D. Panter, CPA
William I. Tucker IV, CPA
Kurt M. Lemmen, CPA



ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

Member:
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Public Accountants
and
Michigan Association of
Certified Public
Accountants

MANAGEMENT LETTER

To the Honorable President and
Board of Trustees
Marshall District Library
Marshall, Michigan

As you know, we have recently completed our audit of the records of the Marshall District Library as of and for the year ended June 30, 2004. In connection with the audit, we feel that certain changes in your accounting and administrative procedures would be helpful in improving management's control and the operational efficiency of the accounting and administrative functions. These suggestions are a result of our evaluation of the internal controls and our discussions with management. These weaknesses are not considered reportable conditions in relation to the basic financial statements of the Marshall District Library but may be areas of possible improvement.

1. The Library should adopt a written credit card policy.

During the course of the audit it was noted that the Library had received credit cards to purchase supplies. An inquiry of Library personnel indicated that the Library Board had not adopted a formal written credit card policy as required by P.A. 266 of 1995 (MCL 129.241).

We suggest that the Library adopt a formal credit card policy as soon as possible to comply with the State of Michigan requirements. The policy must include and/or address the following items:

- a. An officer or employee designated to oversee credit card issuance, accounting, monitoring, and compliance with the policy;
- b. The use of the credit card only for the purchase of goods and services for the official business of the local unit;
- c. User of the credit card must submit documentation of what goods and services were purchased, the cost, the date of purchase, and the official business for which purchase was made;
- d. Office or employee is responsible for credit card protection and custody and must report lost or stolen cards;
- e. Credit card to be returned to local unit at termination of official or employee;
- f. Internal control systems over the use of credit cards;
- g. Approval of credit card invoices prior to payment
- h. The balance including interest must be paid within 60 days of the initial statement date;
- i. Disciplinary measures for unauthorized use of a credit card; and
- j. Other matters the local unit considers advisable.

2. Budgets should be monitored and amended when necessary.

As noted in the basic financial statements, some of the activities of the Library exceeded the amounts appropriated. The variances noted were in the General and Special Revenue Fund.

The Michigan Public Act 621 of 1978, as amended, provides that the Library adopt formal budgets for all applicable General and Special Revenue Funds, and shall not incur expenditures in excess of the amounts appropriated. Also, the Public Act requires amendments to be performed prior to incurring additional expenditures.

We suggest the Library monitor expenditures against adopted budgets and make appropriate budget amendments in a timely fashion.

3. The Library should adopt an electronic funds transfer policy.

During the course of the audit it was noted that the Library had used electronic fund transfers to make payments but did not have the necessary electronic funds transfer policy required by the Michigan Public Act 738 of 2002. The Public Act requires such a policy to be in place prior to conducting these transactions.

We suggest that the Library adopt a formal electronic fund transfer policy as soon as possible to comply with the State of Michigan requirements.

4. The Library should establish a capitalization threshold in order to track material assets purchased.

During the course of our audit, it was noted that the Library does not have a capitalization threshold policy in place. This policy would set forth a dollar threshold for items purchased by the Library that would be considered material, long-lived assets which should be capitalized and depreciated.

We suggest the Library adopt a capitalization threshold policy.

5. The Library should review various areas of operation and consider additional segregation of duties.

During our receipt test, we noted that the Library may not have sufficient segregation of duties in its cash receipt process. The intent of internal control is to assure that no one individual is able to control all aspects of a transaction cycle.

The main concept of internal control is to assure that no one (1) individual handles all aspects of processing a transaction. The Library's current processes allow one (1) individual to process all transactions. By allowing such processes to continue, the Library Board must realize a greater risk exist in safeguarding assets.

We suggest the Library write a receipt for all funds received within a pre-numbered receipt book and that all receipt documentation be retained for audit purposes.

These conditions were considered in determining the nature, timing, and extent of the audit tests to be applied in our audit of the basic financial statements, and this report does not affect our report on the basic financial statements dated September 8, 2004.

This report is intended solely for the information of management and members of the Board of the Marshall District Library and is not intended to be and should not be used by anyone other than these specified parties.

We wish to express our appreciation for the courtesy and cooperation to us during our audit. We are available to discuss any issues with you and to provide assistance in the implementation of improvements.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

September 8, 2004